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Classes*

UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF CALIFORNIA

CHRISTOPHER CALISE and ANASTASIA
GROSCHEN, Individually and On Behalf of
All Others Similarly Situated,

Plaintiffs,

v.

FACEBOOK, INC.,

Defendant.

Case No.

CLASS ACTION COMPLAINT

(1) Negligence

(2) Breach of Contract

(3) Breach of the Covenant of Good Faith and
Fair Dealing

(4) Violations of Cal. Bus. & Bus. Prof. Code §
17200, *et seq.*

(5) Unjust Enrichment

JURY TRIAL DEMANDED

1 Plaintiffs Christopher Calise and Anastasia Groschen (“Plaintiffs”), individually and on
 2 behalf of all others similarly situated, by and through their undersigned counsel, bring this class
 3 action complaint seeking monetary and injunctive relief against Defendant Facebook, Inc.
 4 (“Facebook” or the “Company”).¹ Plaintiffs allege the following upon information and belief
 5 based on the investigation of counsel, except as to those allegations that specifically pertain to
 6 Plaintiffs, which are alleged upon personal knowledge.²

7 NATURE OF THE ACTION

8 1. This case seeks to put an end to Facebook’s policy of actively soliciting,
 9 encouraging, and assisting scammers it knows, or should know, are using its platform to defraud
 10 Facebook users with deceptive ads, and compel Facebook to either compensate Facebook users
 11 for their losses or disgorge the billions of dollars in profits it has unjustly earned from such
 12 misconduct.

13 2. Facebook collects vast amounts of data from each Facebook user. While Facebook
 14 does not pay users for it, this data has enormous financial value since it enables Facebook to sell
 15 precisely targeted ads to millions of advertisers. Scammers discovered they could exploit these
 16 targeting capabilities to get deceptive, false and/or misleading ads viewed by the Facebook users
 17 most likely to click those ads and be lured into bait-and-switch and other fraudulent schemes (the
 18 “Deceptive Facebook Ads”). As various scammers told Bloomberg News in 2017, Facebook has
 19 “revolutionized scamming.”³

20 3. Given the foreseeability of material harm to Facebook users from scammers,
 21 Facebook should have promptly shut down these scammers as soon as they started surfacing on its
 22 platform. Facebook had and continues to have a duty to do so given, among other factors, (i)
 23 promises in its Terms of Service to remove false and misleading ads, (ii) advertising policies

24 _____
 25 ¹ Plaintiff Calise sought to address and resolve the allegations and relief sought in this complaint
 26 through a pre-suit demand, dated June 1, 2021, and subsequent discussions by and between counsel
 27 for Plaintiffs and Facebook.

28 ² All emphasis herein is added, unless otherwise noted.

³ Zeke Faux, *How Facebook Helps Shady Advertisers Pollute the Internet*, BLOOMBERG
 BUSINESSWEEK (March 27, 2018) [https://www.bloomberg.com/news/features/2018-03-27/ad-
 scammers-need-suckers-and-facebook-helps-find-them](https://www.bloomberg.com/news/features/2018-03-27/ad-scammers-need-suckers-and-facebook-helps-find-them) (last visited on July 2, 2021).

1 strictly prohibiting such ads, and (iii) the vast investigative, technical, and financial capabilities
 2 and resources at Facebook’s disposal to combat fraud. But Facebook refuses to drive scammers
 3 off its platform because it generates billions of dollars per year in revenue from Deceptive
 4 Facebook Ads.

5 4. Facebook has done much more than passively create and maintain a platform on
 6 which scammers can brazenly target users with scams. According to internal Facebook
 7 documents, and current and former Facebook employees and contractors recently interviewed by
 8 various investigative journalists at prominent publications,⁴ Facebook actively solicits,
 9 encourages, and assists scammers in numerous ways. On the revenue side, according to these
 10 investigations, Facebook’s sales teams have presented at conferences heavily attended by known
 11 scammers, socialized with known scammers for business development purposes, and met revenue
 12 quotas by encouraging known scammers to continue buying Facebook ads. Facebook’s sales teams
 13 have also been aggressively soliciting ad sales in China and providing extensive training services
 14 and materials to China-based advertisers, despite an internal study showing that *nearly thirty*
 15 *percent (30%)* of the ads placed by China-based advertisers — estimated to account for \$2.6 billion
 16 in 2020 ad sales alone — violated at least one of Facebook’s own ad policies.

17 5. On the enforcement side, according to these investigations, Facebook has
 18 affirmatively directed employees and contractors tasked with monitoring Facebook’s platform for
 19 deceptive ads to (i) ignore ads placed by hacked Facebook accounts and pages, as long as Facebook
 20 gets paid for these ads, and (ii) ignore violations of Facebook’s Ad Policies, especially by China-
 21 based advertisers (since Facebook “want[s] China revenue”).

22 6. In October 2020, the Federal Trade Commission (“FTC”) reported that about 94%
 23 of the complaints it collected concerning online shopping fraud on social media identified
 24 Facebook (or its Instagram site) as the source.⁵

25 _____
 26 ⁴ See footnotes 21-34 and 40 *infra*.

27 ⁵ Press Release, Federal Trade Commission, FTC Data Shows Big Jump in Consumer Reports
 28 about Scams Originating on Social Media (Oct. 21, 2020), [https://www.ftc.gov/news-
 events/press-releases/2020/10/ftc-data-shows-big-jump-consumer-reports-about-scams-
 originating](https://www.ftc.gov/news-events/press-releases/2020/10/ftc-data-shows-big-jump-consumer-reports-about-scams-originating), (last visited on July 2, 2021).

7. Cracking down on scammers would jeopardize the billions of dollars per year in ad revenue that Facebook collects from scammers. Therefore, even as Facebook’s public relations team touts the closing of certain accounts and lawsuits targeting a few scammers, Facebook remains economically motivated to continue soliciting, encouraging, and assisting scammers at the expense of its users. As Tim Hwang, the author of a book on ad fraud, told BuzzFeed, “I think the profit motive definitely makes it harder for Facebook to take real steps here.”⁶ Therefore, declaratory and injunctive relief is necessary to prevent future harm to Facebook users.

8. The injunctive relief (“Proposed Injunctive Relief”) that Plaintiffs seek includes, but is not limited to, directing Facebook to implement and monitor changes to Facebook’s processes, practices, and policies to substantially reduce the display of Deceptive Facebook Ads on Facebook’s website and protect Facebook users from being victimized by scam ads, including without limitation, implementing and monitoring changes to processes, practices, and policies with respect to:

- (a) vetting new advertisers before permitting them to display ads – particularly prospective advertisers based in China and other countries where a material percentage of ads violate Facebook’s ad policies;
- (b) preventing repeat offenders from circumventing enforcement mechanisms to continue displaying scam ads (*e.g.*, through hacking and/or set-up of new Facebook accounts);
- (c) promptly processing and responding to reports of scam ads submitted by Facebook users;
- (d) identifying and promptly removing ads that violate Facebook’s ad policies;
- (e) educating users about the location and use of tools available to protect themselves against scam ads, and how to report scam ads to Facebook;

⁶ Craig Silverman and Ryan Mac, *Facebook Gets Rich Off Of Ads That Rip Off Its Users* BUZZFEED NEWS (Dec. 10, 2020), <https://www.buzzfeednews.com/article/craigsilverman/facebook-ad-scams-revenue-china-tiktok-vietnam> (last visited on July 2, 2021).

(f) compensating Facebook employees and contractors tasked with monitoring Facebook's websites for scam ads to ensure, among other things, that such employees and contractors are incentivized to prioritize protection of Facebook users from Deceptive Facebook Ads without having to consider the ramifications of their actions on Facebook's revenue;

(g) compensating Facebook's sales, marketing, and business development teams to ensure, among other things, that such teams are not financially incentivized to solicit scammers or encourage scammers to continue purchasing Facebook ads (including but not limited a review of ad sales practices with respect to China and other countries where a material percentage of ads violate Facebook's ad policies); and

(h) expanding Facebook's existing Purchase Protection program for purchases made on the Facebook website to victims who are tricked by scammers into fraudulent transactions occurring off the Facebook website.

9. Plaintiffs also seek monetary relief in the form of damages and/or disgorgement of profits unjustly earned by Facebook. By collecting troves of data from Facebook users without compensating them, and then earning vast sums from scammers who leverage that data to target Deceptive Facebook Ads at vulnerable Facebook users, Facebook has breached legal and contractual duties owed to its users, and unjustly enriched itself at their expense.

10. Plaintiffs seek monetary, declaratory, and injunctive relief against Facebook on behalf of themselves and other similarly-situated Facebook users by asserting claims for negligence; breach of contract; breach of the covenant of good faith and fair dealing; violations of California's Unfair Competition Law (Cal. Bus. & Prof. Code §§ 17200, *et seq.*) ("UCL"); and unjust enrichment.

PARTIES

11. Plaintiff Christopher Calise is citizen and resident of the State of Oregon, and over the age of eighteen years. Mr. Calise has had a Facebook account since 2009.

1 12. Plaintiff Anastasia Groschen is a citizen and resident of the State of Nebraska, and
2 over the age of eighteen years. Ms. Groschen has had a Facebook account since 2007.

3 13. Facebook is a publicly-traded Delaware corporation with its principal place of
4 business located within this District at 1 Hacker Way, Menlo Park, California 94025.

5 14. Facebook conceived, reviewed, approved, directed, and controlled the misconduct
6 alleged herein in California; and collected the revenue wrongfully earned from such misconduct
7 in California.

8 **JURISDICTION, VENUE AND CHOICE OF LAW**

9 15. This Court has subject matter jurisdiction over Plaintiffs' claims under 28 U.S.C.
10 §1332(d)(2), the Class Action Fairness Act of 2005, because at least one member of the Class,
11 which exceeds 100 members in the aggregate, is a citizen of a different state than Facebook and
12 the amount in controversy exceeds \$5,000,000, exclusive of interest and costs.

13 16. This Court has personal jurisdiction over Facebook because it transacts business in
14 this State, and because the tortious conduct alleged in this Complaint occurred in, was directed to,
15 and/or emanated from California.

16 17. Venue is proper in this District under 28 U.S.C. §1391 because Facebook is
17 headquartered in this District, and conducts business transactions in this District, and because the
18 wrongful conduct giving rise to this case occurred in, was directed from, and/or emanated from
19 this District.

20 18. Facebook's Terms of Service contains a choice of law and venue provision
21 providing as follows:

22 For any claim, cause of action, or dispute you have against us that arises out of or
23 relates to these Terms or the Facebook Products ("claim"), you agree that it will be
24 resolved exclusively in *the U.S. District Court for the Northern District of*
25 *California or a state court located in San Mateo County*. You also agree to submit
26 to the personal jurisdiction of either of these courts for the purpose of litigating any
27 such claim, and that the *laws of the State of California* will govern these Terms
28 and any claim, without regard to conflict of law provisions.⁷

⁷ Facebook Terms of Service, <https://www.facebook.com/terms.php> (last visited on July 2, 2021).

FACTUAL ALLEGATIONS

A. The User Data Fueling Facebook’s Advertising Revenue

19. Facebook is the world’s largest social media company, providing its users with social networking services that enable them to connect and communicate with family, friends and colleagues concerning subjects of common interest.

20. As of March 31, 2021, Facebook reported 2.85 billion monthly active users, and 1.88 billion daily active users. Facebook has become such a staple of 21st-century life — with huge numbers of people relying on it daily for news, product recommendations and social interaction — that many politicians and academics have characterized it as a public utility.⁸ Indeed, in a 2007 interview with Time, Facebook’s CEO, Mark Zuckerberg, himself characterized Facebook as a “social utility.”⁹

21. Facebook does not charge Facebook users for its services. Instead, it generates virtually all of its revenue from selling advertising to businesses seeking to market their products and services to Facebook users. During 2020, Facebook generated revenue of \$85.97 billion, of which 98%, or \$84.17 billion, was from advertising.

22. Facebook has over 7 million active monthly advertisers.¹⁰

⁸ See also Dipayan Ghosh, *Don’t Break Up Facebook—Treat It Like a Utility*, HARVARD BUSINESS REVIEW (May 30, 2019), <https://hbr.org/2019/05/dont-break-up-facebook-treat-it-like-a-utility> (last visited on July 2, 2021); Anjana Susarla, *Facebook shifting from open platform to public utility*, UPI (Aug. 17, 2018), https://www.upi.com/Top_News/Voices/2018/08/17/Facebook-shifting-from-open-platform-to-public-utility/1721534507642/ (last visited on June 23, 2021); Ryan Grim, *Steven Bannon Wants Facebook and Google Regulated Like Utilities*, THE INTERCEPT (July 27, 2017), <https://theintercept.com/2017/07/27/steve-bannon-wants-facebook-and-google-regulated-like-utilities/> (last visited on July 2, 2021).

⁹ Lauren Locke, *The Future of Facebook*, TIME (July 17, 2007), <http://content.time.com/time/business/article/0,8599,1644040,00.html> (last visited on July 2, 2021).

¹⁰ Facebook for Business, *Insights to Go*, FACEBOOK, <https://www.facebook.com/iq/insights-to-go/6m-there-are-more-than-6-million-active-advertisers-on-facebook> (last accessed July 2, 2021).

23. Facebook’s pitch to advertisers is simple: we leverage user data to show the right ads to the right people. As Zuckerberg testified before the Senate’s Commerce and Judiciary Committees on April 10, 2018:

What we allow is for advertisers to tell us who they want to reach, and then we do the placement. So, if an advertiser comes to us and says, ‘All right, I am a ski shop and I want to sell skis to women,’ then we might have some sense, because people shared skiing-related content, or said they were interested in that, they shared whether they’re a woman, ***and then we can show the ads to the right people.*** . . .¹¹

24. To fulfill its promise to advertisers to target the right ads at the right people, Facebook collects massive amounts of data concerning its users. For example, on December 27, 2016, the investigative nonprofit, ProPublica, reported that it had identified more than 52,000 unique interest categories used by Facebook to classify its users (such as interests in different types of food, stores, clothing, movies, etc.).¹² These interests are inferred by Facebook in part based on the actions that users take while they are logged in to Facebook, such the pages they have liked or ads they have clicked. As ProPublica explained: “Every time a Facebook member likes a post, tags a photo, updates their favorite movies in their profile, posts a comment about a politician, or changes their relationship status, Facebook logs it.”¹³

25. Facebook also collects information about pages that users visit outside of the Facebook platform. For example, the Facebook pixel is a small piece of code that businesses can

¹¹ See Joint Full Committee Hearing, *Facebook, Social Media Privacy, and the Use and Abuse of Data*, COMMITTEE ON THE JUDICIARY (Apr. 10, 2018, 2:15 PM), <https://www.judiciary.senate.gov/meetings/facebook-social-media-privacy-and-the-use-and-abuse-of-data> (last visited on July 2, 2021); *Transcript of Mark Zuckerberg’s Senate Hearing*, THE WASHINGTON POST (Apr. 10, 2018), https://www.washingtonpost.com/news/the-switch/wp/2018/04/10/transcript-of-mark-zuckerbergs-senate-hearing/?utm_term=.08d8f25b84bf (last accessed July 2, 2021).

¹² Julia Angwin, Surya Mattu and Terry Parris Jr., *Facebook Doesn’t Tell Users Everything It Really Knows About Them*, PROPUBLICA (Dec. 27, 2016), <https://www.propublica.org/article/facebook-doesnt-tell-users-everything-it-really-knows-about-them> (last visited on July 2, 2021). See also *Facebook Ad Categories*, PROPUBLICA DATA STORE (Dec. 2016), <https://www.propublica.org/datastore/dataset/facebook-ad-categories> (last visited on June 23, 2021).

¹³ Julia Angwin, Terry Parris Jr. and Surya Mattu, *What Facebook Knows About You*, PROPUBLICA (Dec. 28, 2016), <https://www.propublica.org/article/breaking-the-black-box-what-facebook-knows-about-you> (last visited on July 2, 2021).

put on their website to track what pages users visited, and what purchases they made, and match this data back to Facebook user profiles for the purpose of displaying ads.¹⁴

26. Whenever a new user logs in to Facebook’s platform, Facebook’s software accesses the data it has collected on that user to determine what ads to display. The selection process takes the form of an online auction in which advertisers compete to show their ads to a particular Facebook user whom Facebook predicts (based on user data) will be interested in those ads. Since there are nearly two billion daily active Facebook users, billions of these auctions occur every day (each taking milliseconds).¹⁵

27. The set of instructions that Facebook’s software follows to determine which ads to display to a particular user is known as an algorithm. Facebook’s ad algorithm weighs three factors: (i) an advertiser’s bid, (ii) estimated action rate, and (iii) ad quality. The “estimated action rate” is the algorithm’s estimate of how likely a particular user is to click, view or otherwise engage with a particular ad based on that user’s data points, while “ad quality” is a variable based on feedback from various sources concerning the text and images in an ad.¹⁶

B. Facebook’s Terms of Service

28. Section 1 of Facebook’s Terms of Service (*see supra* note 7) (“TOS”) — titled “The services we provide” — provides in relevant part:

Our mission is to give people the power to build community and bring the world closer together. To help advance this mission, we provide the Products and services described below to you....

Combat harmful conduct and protect and support our community:

People will only build community on Facebook if they feel safe. *We employ dedicated teams around the world and develop advanced technical systems to detect misuse of our Products, harmful conduct towards others, and situations where we may be able to help support or protect our community. If we learn of content or conduct like this, we will take appropriate action* - for example, offering help, removing content, removing, or restricting access to certain features, disabling an account, or contacting law enforcement. We share data with other Facebook

¹⁴ *Show your ads to the right people with the Facebook pixel*, FACEBOOK FOR BUSINESS, <https://www.facebook.com/business/m/pixel-manual-install> (last visited on July 2, 2021).

¹⁵ Business Help Center, *About Ad Auctions*, FACEBOOK FOR BUSINESS, <https://www.facebook.com/business/help/430291176997542> (last visited on July 2, 2021).

¹⁶ *Id.*

Companies when we detect misuse or harmful conduct by someone using one of our Products.

Use and develop advanced technologies to provide safe and functional services for everyone:

We use and develop advanced technologies - such as artificial intelligence, machine learning systems, and augmented reality - so that people can use our Products safely regardless of physical ability or geographic location . . . ***And we develop automated systems to improve our ability to detect and remove abusive and dangerous activity that may harm our community and the integrity of our Products.***

29. Section 3 of the TOS — titled “Your commitments to Facebook and our community” — provides in relevant part:

We provide these services to you and others to help advance our mission. In exchange, we need you to make the following commitments....

2. What you can share and do on Facebook:

We want people to use Facebook to express themselves and to share content that is important to them, but not at the expense of the safety and well-being of others or the integrity of our community. You therefore agree not to engage in the conduct described below (or to facilitate or support others in doing so):

1. You may not use our Products to do or share anything:

- That violates these Terms, our Community Standards, and other terms and policies that apply to your use of Facebook.
- ***That is unlawful, misleading, discriminatory, or fraudulent.***

30. The Community Standards referenced in Section 3 of the TOS are hyperlinked to a page that provides in relevant part: “Safety: We are committed to making Facebook a safe place.”¹⁷ Under “Safety,” there is section specifying conduct that is prohibited because it is violent or criminal, including “5. Fraud and Deception: ***“In an effort to prevent fraudulent activity that can harm people or businesses, we remove content that purposefully deceives, willfully misrepresents or otherwise defrauds or exploits others for money or property.*** This includes content that seeks to coordinate or promote these activities using our services. We allow people to

¹⁷ See Community Standards, *Introduction*, FACEBOOK, <https://www.facebook.com/communitystandards/introduction> (last visited on July 2, 2021).

1 raise awareness and educate others as well as condemn these activities.”¹⁸ The next paragraph in
 2 the “Fraud and Deception” section warns users against posting content “Deceiving others to
 3 generate a financial or personal benefit to the detriment of a third party or entity through [various
 4 scams].”

5 31. Section 5 of the TOS — titled “Other terms and policies that may apply to you” —
 6 links in the third bullet to Facebook’s Advertising Policies, which is described as specifying “the
 7 types of content that may appear in Facebook ads.” Facebook’s Advertising Policies prohibit ads
 8 that, *inter alia*: (i) contain deceptive, false, or misleading claims like those relating to the
 9 effectiveness or characteristics of a product or service (e.g., false or misleading claims about
 10 product attributes, quality, or functionality), and (ii) promote products, services, schemes or offers
 11 using deceptive or misleading practices, including those meant to scam people out of money or
 12 personal information (e.g., use of a picture of a public figure to mislead users into buying a scam
 13 product).¹⁹ Additionally, Facebook’s Advertising Policies prohibit advertisers from using “tactics
 14 intended to circumvent our ad review process or other enforcement systems.”²⁰

15 **C. How Facebook Actively Solicits, Encourages and Assists Scammers**

16 32. In March 2018, Bloomberg News reporter Zeke Faux published an article
 17 describing his experiences at an Internet marketing conference in Berlin sponsored by an online
 18 forum called Stack That Money (STM).²¹ Faux reported that a significant number of the attendees
 19

20 ¹⁸ See Community Standards, 5. *Fraud and Deception*,
 21 FACEBOOK, https://www.facebook.com/communitystandards/fraud_deception/ (last visited on
 22 July 2, 2021).

23 ¹⁹ See Advertising Policies, FACEBOOK, (<https://www.facebook.com/policies/ads/>); Advertising
 24 Policies, 23. *Misleading Claims*,
 25 FACEBOOK, https://www.facebook.com/policies/ads/prohibited_content/misleading_claims;
 26 Advertising Policies, 27. *Unacceptable Business Practices*,
 27 FACEBOOK, [https://www.facebook.com/policies/ads/prohibited_content/unacceptable_business_p
 28 ractices](https://www.facebook.com/policies/ads/prohibited_content/unacceptable_business_practices) (last visited on July 2, 2021).

25 ²⁰ See Advertising Policies, 28. *Circumventing Systems*, FACEBOOK,
 26 https://www.facebook.com/policies/ads/prohibited_content/circumventing_systems (last visited
 27 on July 2, 2021).

28 ²¹ “How Facebook Helps Shady Advertisers Pollute the Internet” March 27, 2018
[https://www.bloomberg.com/news/features/2018-03-27/ad-scammers-need-suckers-and-
 facebook-helps-find-them](https://www.bloomberg.com/news/features/2018-03-27/ad-scammers-need-suckers-and-facebook-helps-find-them) (last visited on July 2, 2021).

1 at the conference were affiliate marketers who earned commissions selling shady products such as
 2 diet pills by running Facebook ads featuring deceptive pitches like fake celebrity endorsements.
 3 Exhibitors at the conference pitched these marketers on campaign ideas such as “You Won an
 4 iPhone” and “Your Computer May be Infected,” and services such as fake Facebook ad accounts.

5 33. While the conference was officially sponsored by STM, Faux wrote that “a
 6 newcomer could be forgiven for wondering if it was somehow sponsored by Facebook Inc.” As
 7 Faux observed, saleswomen from Facebook “held court onstage, introducing speakers and
 8 moderating panel discussions,” and “[a]fter the show, Facebook representatives flew to [the
 9 Spanish isle of] Ibiza on a plane rented by Stack That Money to party with some of the top
 10 affiliates.”

11 34. Facebook’s strong presence at the Berlin conference was no coincidence, as
 12 attendees were some of Facebook’s best customers who spent millions of dollars a year displaying
 13 Deceptive Facebook Ads. As marketers explained to Faux, Facebook’s trove of user data had
 14 “revolutionized scamming” by automatically identifying the “suckers” most likely to click
 15 Deceptive Facebook Ads for their shady products and services:

16 Affiliates once had to guess what kind of person might fall for their unsophisticated
 17 cons, targeting ads by age, geography, or interests. Now Facebook does that work
 18 for them. The social network tracks who clicks on the ad and who buys the pills,
 19 then starts targeting others whom its algorithm thinks are likely to buy. Affiliates
 20 describe watching their ad campaigns lose money for a few days as Facebook
 21 gathers data through trial and error, then seeing the sales take off exponentially.²²

22 35. As one affiliate selling deceptively priced skin-care creams with fake endorsements
 23 from Chelsea Clinton succinctly put it, Facebook goes out and “find[s] the morons for me.”²³

24 36. When asked by Faux which tools they were using to manage their deceptive
 25 advertising campaigns, many marketers identified Voluum, an application developed by a former
 26 STM member named Robert Gryn (*see* <https://voluum.com/>). Gryn’s Voluum software was
 27 popular with marketers because, among other features, it made it easy for marketers to evade the

28 ²² Zeke Faux, *How Facebook Helps Shady Advertisers Pollute the Internet*, BLOOMBERG
 BUSINESSWEEK (March 27, 2018) <https://www.bloomberg.com/news/features/2018-03-27/ad-scammers-need-suckers-and-facebook-helps-find-them> (last visited on July 2, 2021).

²³ *Id.*

1 token digital defenses erected by Facebook to detect scam ads. For example, Voluum enables
 2 affiliates to tailor the ads they display by IP address, which identifies the location of the device
 3 being used by an individual to access the Internet. This feature allows marketers to “identify the
 4 addresses of Facebook’s ad reviewers and program campaigns to show them, and only them,
 5 harmless content.”²⁴

6 37. Yet, according to Faux — despite the extensive use of Voluum by scammers —
 7 Facebook’s most senior executive tasked with enforcing its Ad Policies and fighting deceptive ads,
 8 Rob Leathern, invited Gryn to visit Facebook’s London office. This was also no coincidence,
 9 because (according to reports that Gryn showed Faux) affiliates using Voluum alone placed \$400
 10 million worth of ads a year on Facebook. Notably, while Google banned Voluum, Facebook did
 11 not.²⁵

12 38. While Facebook’s salespeople were courting scammers, the Facebook teams
 13 charged with combatting Deceptive Facebook Ads were woefully understaffed. According to one
 14 Facebook engineer, the company was more “focused on checking whether ads followed policies
 15 about things such as the percentage of text and images,” than on “catching people with bad
 16 intentions.”²⁶ Indeed, marketers told Faux that getting caught and banned by Facebook for
 17 deceptive ads was no big deal — “they just opened a new Facebook account under different names
 18 . . . [bought] clean profiles . . . rent[ed] accounts from strangers or cut deals with underhanded
 19 advertising agencies to find other solutions.”²⁷

20 39. Moreover, even as Facebook banned certain accounts, its salespeople encouraged
 21 the affiliates that opened them to “come to their meetups and parties and . . . buy more ads.”²⁸ As
 22 two former Facebook employees who worked in the Toronto sales office told Faux, “*it was*
 23 *common knowledge there that some of their best clients were affiliates who used deception.*”²⁹
 24

25 ²⁴ *Id.*

26 ²⁵ *See id.* (“Google banned Voluum over cloaking concerns, but that didn’t derail the company—
 Facebook was where the action was”).

27 ²⁶ *Id.*

28 ²⁷ *Id.*

29 ²⁸ *Id.*

²⁹ *Id.*

1 These salespeople were instructed to push deceptive marketers “to spend more,” with “the rep who
2 handled the *dirtyest accounts* [having] *a quota of tens of millions of dollars per quarter*.”³⁰

3 **D. How Facebook Actively Solicits, Encourages and Assists Scammers Based in China**

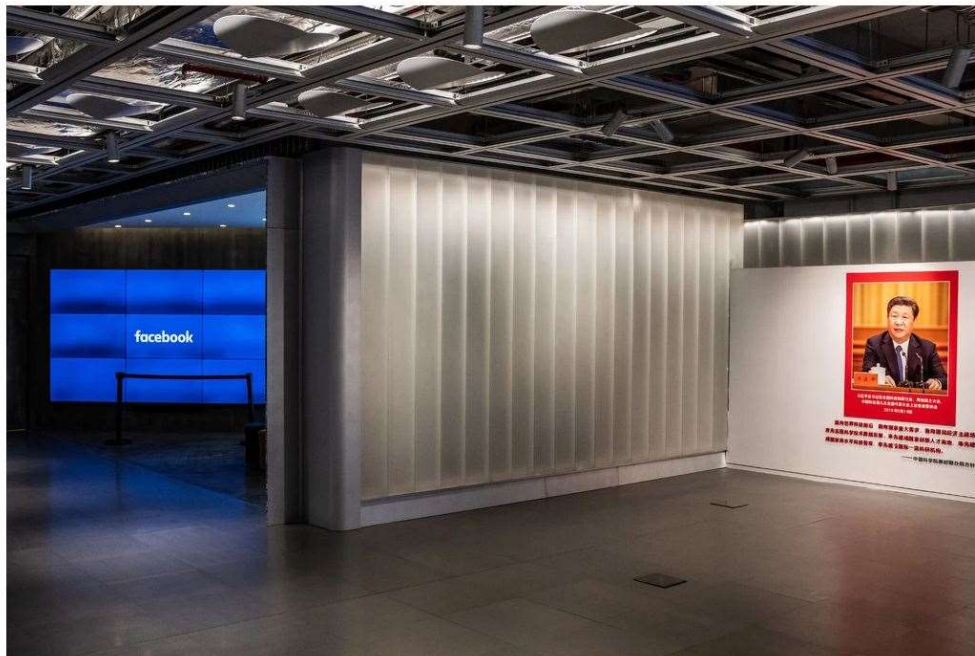
4 40. Leathern (Facebook’s ad policy enforcement chief) promised Faux that “the party’s
5 not going to last,” but it has only gotten worse, in particular with respect to advertisers based in
6 China. As detailed below, Facebook’s sales teams actively solicit, encourage, and assist advertisers
7 in China — despite knowing that a material percentage of China-based advertisers are running
8 Deceptive Facebook Ads that exploit Facebook users and violate Facebook’s ad policies. At the
9 same time, Facebook employees and contractors tasked with monitoring Facebook’s platform for
10 ad fraud, have been affirmatively directed to “look the other way” and ignore Deceptive Facebook
11 Ads run by China-based businesses that violate Facebook’s Ad Policies (because Facebook
12 “wants” China revenue).

13 41. Since 2009, China has used a firewall to bar access to Facebook’s platform in
14 China, and according to Facebook’s latest Form 10-K, Facebook is not generally available in
15 China. But Facebook has still managed to generate billions of dollars a year in ad revenue from
16 China using local affiliates who aggregate ads from local Chinese businesses.

28 ³⁰ *Id.*

E. The February 2019 New York Times Investigative Report

42. In February 2019, New York Times reporters Paul Mozur and Lin Qiqing explained how a local Chinese partner called Meet Social was operating a 5,000 square foot showroom designed with Facebook's guidance in the southern Chinese city of Shenzhen.³¹ The showroom — dubbed a Facebook “experience center” and opened in the spring of 2018 — is stocked with sales material provided by Facebook and hosts prospective clients who wish to advertise on Facebook. Facebook employees often visit the experience center to train local businesses on subjects such as how to create Facebook ads. Videos about Facebook's ad offerings are displayed on screens, and framed examples of Facebook ads by Chinese brands adorn the walls:



A portrait of China's president, Xi Jinping, sits nearby Facebook's experience center. The center is part of a government-run technology exhibition. Lam Yik Fei for The New York Times

43. The head of Meet Social, Charles Shen, told the Times that his company anticipated doing \$1 billion to \$2 billion in ad sales on Facebook and Instagram in 2019, and that each day his company places about 20,000 Chinese ads on Facebook. According to the Times investigative report, in addition to Meet Social, there are six other official Facebook advertising resellers in

³¹ Paul Mozur and Lin Qiqing, *How Facebook's Tiny China Sales Floor Helps Generate Big Ad Money*, THE NEW YORK TIMES (Feb. 7, 2019), <https://www.nytimes.com/2019/02/07/technology/facebook-china-internet.html> (last visited on July 2, 2021).

China offering similar services to businesses seeking to advertise on Facebook. Without the help of advertising resellers recruited by Facebook, Chinese advertisers would be unable to place ads on Facebook because of China's firewall.

F. The January 2020 Reuters Investigative Report

44. In January 2020, Reuters reported that Facebook was setting up a new engineering team in Singapore "to focus on its lucrative China advertising business" by developing localized ad tools.³² Beyond the engineers, the new office also includes sales staff tasked with growing ad sales from Chinese companies. In November 2019, Facebook wrote in Chinese on the popular local social network WeChat (with over a billion active monthly users) that "Facebook is committed to becoming the best marketing platform for Chinese companies going abroad."

45. According to Pivotal Research Group, Facebook's marketing efforts in China have borne fruit, with revenue from Chinese-based advertisers reaching an estimated \$5 billion in 2018, or about 10 percent of Facebook's total ad sales that year.³³ Assuming the same percentage held in 2020, Facebook would have generated \$8.5 billion in ad sales from China in 2020.

46. An internal Facebook ad measurement study, however, found that *nearly thirty percent (30%)* of ads placed by Chinese advertising clients violated at least one Facebook ad policy, including promoting financial scams, and pitching products that were never delivered.³⁴ This means that Facebook generated nearly \$2.6 billion in revenue from Chinese ads that violated its ad policies in 2020 alone.

³² Paresh Dave and Katie Paul, *RPT-FOCUS-Facebook defies China headwinds with new ad sales push*, REUTERS (Jan. 7, 2020), <https://www.reuters.com/article/facebook-china-idUSL1N29C0CD> (last visited on July 2, 2021).

³³ Paul Mozur and Lin Qiqing, *How Facebook's Tiny China Sales Floor Helps Generate Big Ad Money*, THE NEW YORK TIMES (Feb. 7, 2019), <https://www.nytimes.com/2019/02/07/technology/facebook-china-internet.html> (last visited on July 2, 2021).

³⁴ Craig Silverman and Ryan Mac, *Facebook Gets Rich Off Of Ads That Rip Off Its Users*, BUZZFEED NEWS (Dec. 10, 2020), <https://www.buzzfeednews.com/article/craigsilverman/facebook-ad-scams-revenue-china-tiktok-vietnam> (last visited on July 2, 2021).

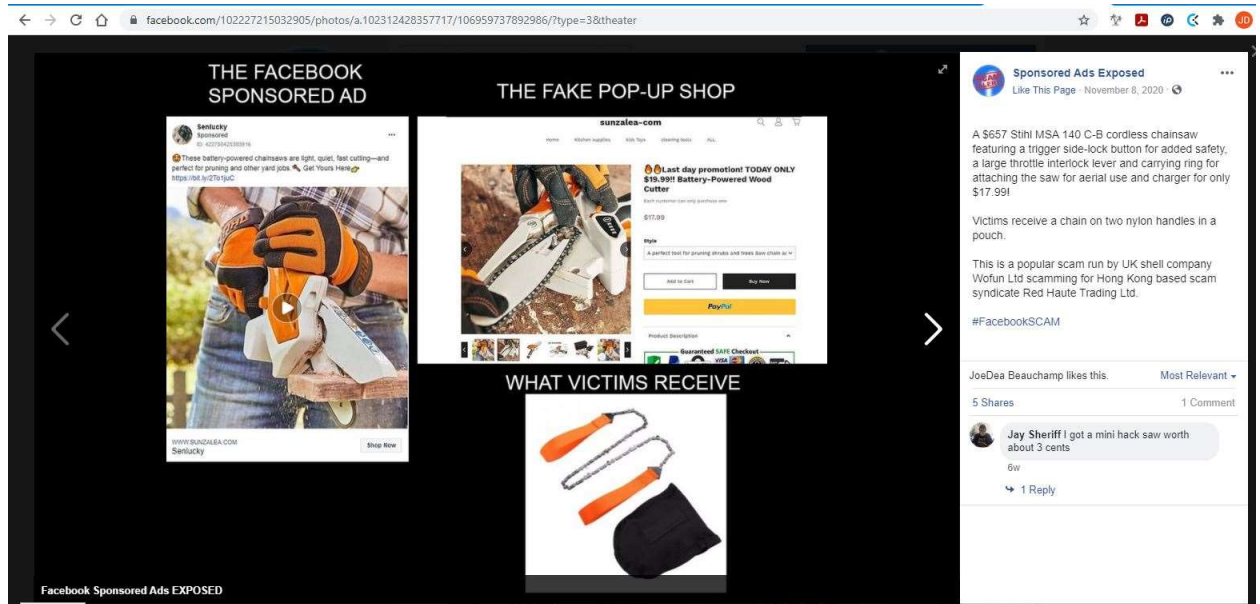
1 **G. The December 2020 Reuters Investigative Report**

2 47. Based on a review of internal Facebook documents and messages, and interviews
3 with eight current and former Facebook employees and contractors, a December 10, 2020
4 BuzzFeed article by Craig Silverman painted a particularly damning portrait of the “financial
5 symbiosis” between Facebook and scammers from China who defraud Facebook users with
6 Deceptive Facebook Ads.³⁵ While Facebook feigns protection of its users, Facebook employees
7 told Silverman that, in fact, the Company prioritizes revenue over enforcement of its ad policies.
8 As one individual with direct knowledge of Facebook ads enforcement explained, Facebook “is
9 primarily focused on revenue growth, and user safety comes second.” Another remarked,
10 “[Facebook] will take any cent that they can get on anything . . . They do not care whatsoever as
11 long as they’re making a dime out of it.”

12 48. Like the Deceptive Facebook Ads described in the March 2018 Bloomberg article,
13 Chinese scam ads use fake celebrity endorsements, as well as pilfered images and videos, to trick
14 Facebook users into putting recurring subscription charges on their credit cards that are difficult
15 to cancel, overpaying for products that never arrive, or falling victim to bait-and-switch schemes
16 in which the product that arrives is not what was advertised and ordered.

17 49. For example, in one recent scam impersonating Stihl, a 94-year-old manufacturer
18 of outdoor tools, Facebook users who clicked a slick video ad to buy one of the company’s
19 chainsaws or pruners instead received a single metal chain, an unrelated product, or nothing at all:
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28 ³⁵ *Id.*



50. BuzzFeed’s review of roughly a dozen Facebook ads impersonating Stihl products indicated that “half of them, including an ad that attracted close to half a million views, were linked to a Chinese company, Ouyi Electronic Commerce Co., Ltd. of *Shenzhen*” (where, as noted above, Facebook’s “experience center” is located). Other fake ads for Stihl products have been linked to a UK shell company called Wofun Ltd., which runs scams on behalf of Hong Kong-based syndicate called Red Haute Trading, Ltd.

51. Sources inside Facebook who spoke with investigative reporter Silverman, and internal Facebook documents reviewed by his team at Buzzfeed, indicate that enforcement of the ad policies purportedly intended to prevent scam ads is extraordinarily lax in part because Facebook has outsourced critical ad integrity work to inadequately staffed teams of third-party contractors getting paid low hourly wages and receiving no benefits. Worse, these same sources and documents show that Facebook prioritizes its own financial interests over those of its users *as a matter of policy* with contractors tasked with monitoring ads often being affirmatively instructed to ignore signs of ad fraud unless an issue may cause Facebook to lose money (such as a credit card chargeback):

Internal messages seen by BuzzFeed News show an Accenture manager who led a team of 45 ads analysts *instructing contract workers to ignore hacked accounts*

1 ***and other violations as long as “Facebook gets paid” for ads through a valid***
 2 ***payment method.*** Even if a hacker has taken over a person’s account, contractors
 3 were told to allow the hacker to place ads, as long the payment method for ads was
 4 valid.

5 “If they are spending their own money and not adding any foreign cards that don’t
 6 belong to them, then Facebook doesn’t experience any leakage,” the manager wrote
 7 in July of last year. Leakage refers to credit card chargebacks or other scenarios
 8 that result in Facebook having to refund the money.

9 The Accenture manager justified his guidance to ignore potentially hacked accounts
 10 and pages by diminishing the risk involved. He said hackers compromise accounts
 11 that control large pages because they’re “interested in the broad reach these larger
 12 pages have and simply want to reach larger audiences with legitimate ads.”

13 ***He framed it as a win-win scenario for Facebook and people exploiting its***
 14 ***advertising system because Facebook earns revenue and the hacker can reach***
 15 ***more people with their ad.*** “Facebook gets paid, the bad actors get to run their ads
 16 to a larger market,” the manager wrote. ***He joined Facebook as a full-time risk***
 17 ***investigations analyst in April of this year, according to his Facebook profile.***³⁶

18 52. After learning of the directives described above, Laura Edelson, a researcher with
 19 NYU’s Online Political Ads Transparency Project, concluded that the job of these Facebook
 20 contractors is plainly to protect *Facebook* — and *not* its users — from fraud. Tim Hwang, author
 21 of the book on ad fraud, further observed that, based on the sources above, Facebook has subjected
 22 these contractors to untenable conflicts of interest where they have to think about the impact of
 23 their enforcement actions on revenue, instead of focusing solely on risk. As for the question of
 24 revenue versus risk, Hwang noted, “[i]t’s clear through their policy which one Facebook is
 25 prioritizing.”³⁷

26 53. Lax enforcement is particularly acute as applied to China-based advertisers because
 27 of the vast amount of revenue generated by China-based ads. As one source with knowledge of
 28 Facebook’s ad enforcement advised Silverman, deception by China-based advertisers is well
 known among Facebook’s employees and contractors. The source indicated that “[w]e’re not told
 in the exact words, ***but [the idea is to] look the other way.*** It’s ‘Oh, that’s just China being China.’”

³⁶ Craig Silverman and Ryan Mac, *Facebook Gets Rich Off Of Ads That Rip Off Its Users*,
 BUZZFEED NEWS (Dec. 10, 2020),
<https://www.buzzfeednews.com/article/craigsilverman/facebook-ad-scams-revenue-china-tiktok-vietnam>
 (last visited on July 2, 2021).

³⁷ *Id.*

1 It is what it is. *We want China revenue.*” For this reason, the source added, “I would never buy
 2 anything on Facebook.”³⁸ Further internal Facebook documents reviewed by Buzzfeed revealed
 3 that “Facebook has been aware of an epidemic of violative ads and scammers operating out of
 4 China *for years.*”

5 54. According to a former Facebook employee, even when Facebook bans Chinese
 6 advertisers for violating policies, they simply “return to the platform by setting up new companies
 7 and creating new Facebook ads accounts.”³⁹ That tactic was used by a Hong Kong-registered
 8 advertiser, ZestAds, that was purportedly banned by Facebook, yet still purchased and placed
 9 misleading ads selling face masks after the onset of the COVID-19 pandemic.

10 **H. The December 2020 Time Investigative Report**

11 55. The findings above in the December 2020 BuzzFeed article were corroborated a
 12 week later in a December 18, 2020 Time expose, which featured a recent scam in which ads
 13 originating from China and Hong Kong-based companies infringed copyrighted sea glass
 14 sculptures produced by a small business in Florida — and even misappropriated the likeness of
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27 ³⁸ *Id.*

28 ³⁹ *Id.*

the sculptor — to trick Facebook users into making purchases. But instead of receiving the sculptures, buyers received plastic cones or tiny wooden gnomes:⁴⁰



Kristi Pimentel, left, had photos of her and her sea glass trees stolen and put onto scam advertisements on Facebook, left and center; Heather Hopper purchased three and says she instead was sent a gnome, right. Gnome: Courtesy of Heather Hopper

56. The Time article traced other Facebook ad scams to China-based advertisers. For instance, one Facebook scam ad led to a website called Apriloina.com, which was registered by a China-based company. That site shared the same IP addresses, customer support emails, phone numbers, and warehouse shipping addresses in Mainland China as thousands of other e-commerce websites.

57. As another example, Time uncovered public links between one Facebook ad scam network and two large Chinese companies: publicly-traded TIZA Information Industry Corporation Inc. (which provides industrial Internet IT services), and TIZA's subsidiary

⁴⁰ Andrew R. Chow, *Here's How Shopping Scams on Facebook Are Ripping Off Thousands of Customers, With the Money Flowing Overseas*, TIME (Dec. 18, 2020), <https://time.com/5921820/facebook-shopping-scams-holidays-covid-19/> (last visited on July 2, 2021). The two URL's depicted in the scam ads in the screenshots in the text are: Sell22Ty.com and <https://bit.ly/3dngAoU> (which redirected to the wallien.store domain as of February 3, 2021). According to the WHOIS database that tracks domain name registrations, the former domain was registered by a company in Hong Kong, and the latter domain was registered by a company in China.

1 Youkeshu, an e-commerce company. According to public records reviewed by Time, Youkeshu is
 2 the biggest shareholder of both Shenzhen Guiguyun software technology co., LTD—which owns
 3 the domain Kokoerp.com, where many of the scam sites appear—and Duo Tongguang Electronic
 4 Commerce Co., Ltd, a shell company that has been the subject of hundreds of complaints on PayPal
 5 and other sites. Email addresses and internal portals link the Youkeshu and Kokoerp domains
 6 together. And some “Kokoerp” scam victims have reported receiving boxes with YKS —
 7 Youkeshu’s trading symbol — on the return label.

8 **I. FTC Data Shows That the Volume of Scam Ads on Social Media Sites Like**
 9 **Facebook is Growing Rapidly**

10 58. Data collected by the FTC concerning social media fraud confirms that the volume
 11 of scam ads on social media sites like Facebook is growing rapidly. On October 21, 2020, the FTC
 12 issued a press release announcing that consumers reported losing more than \$117 million on social
 13 media scams in just the first six months of 2020, as compared to \$134 million for all of 2019. The
 14 latest FTC data indicates that consumer losses from social media scams totaled \$131 million in the
 15 first quarter of 2021 alone — nearly the same number as the entire 2019.

16 59. Critically, these numbers only represent the losses reported to the FTC and other
 17 law enforcement entities (primarily in the United States) that contribute data to the FTC’s
 18 Consumer Sentinel Network. It does not account for consumers who did not report their losses to
 19 enforcement authorities, which means total losses to U.S. consumers from social media scams
 20 exceeds what has been reported by the FTC.

21 60. The FTC’s October 2020 press release also reported that “online shopping” fraud
 22 topped the list of complaints concerning social media fraud that consumers submitted to the FTC.
 23 Many of these consumers reported that they had attempted to purchase a product promoted in a
 24 social media ad, but then the item they ordered never arrived. Approximately 94% of these
 25 consumers identified Facebook or its Instagram site as the platform on which the deceptive ad
 26 appeared.

J. Facebook Has No Incentive to Crack Down on Scam Ads

61. Facebook clearly has the investigative, financial, and technical resources to effectively crack down on the volume of scam ads appearing on its website. As one example that Facebook is ready, willing, and able to marshal its resources when threatened, when hedge fund titan George Soros criticized Facebook at a global economic forum, Facebook's COO, Sheryl Sandberg, promptly ordered an investigation to determine if Soros was selling Facebook stock short.⁴¹

62. But with respect to scam ads, Facebook has no incentive to deploy its resources to crack down because it is generating billions of dollars a year in ad sales from scam ads. As the BuzzFeed article reported, "according to current and former employees, as well as industry experts . . . *Facebook typically keeps the money it earns from scam ads and fraudulent campaigns that pollute its platforms, unless it involves credit card fraud.*"⁴² For example, Facebook "earned more than \$50 million in revenue over two years from a single San Diego marketing agency that ripped off Facebook users by tricking them into hard-to-cancel subscriptions and investment scams, and it banked almost \$10 million in advertising revenue from the Epoch Times, a pro-Trump media organization that spreads conspiracies, before banning the outlet's ads for using fake accounts and other deceptive tactics."⁴³

63. These and other examples cited by investigative journalists illustrate that Facebook's corporate culture prioritizes its own revenue growth over the safety of its users, a

⁴¹ Nicholas Confessore and Matthew Rosenberg *Sheryl Sandberg Asked for Soros Research, Facebook Acknowledges*, THE NEW YORK TIMES (Nov. 29, 2018), <https://www.nytimes.com/2018/11/29/technology/george-soros-facebook-sheryl-sandberg.html> (last visited on July 2, 2021).

⁴² Craig Silverman and Ryan Mac, *Facebook Gets Rich Off Of Ads That Rip Off Its Users*, BUZZFEED NEWS (Dec. 10, 2020), <https://www.buzzfeednews.com/article/craigsilverman/facebook-ad-scams-revenue-china-tiktok-vietnam> (last visited on July 2, 2021).

⁴³ *Id.*; see also Facebook's Purchase Protection program only refunds money for purchases checked out through the Facebook website; purchases made through third-party sites, do not qualify for Purchase Protection. See Using Facebook, *How does Purchase Protection work on Facebook?*, FACEBOOK, <https://www.facebook.com/help/228307904608701> (last visited on July 2, 2021).

1 reality further corroborated by other publicly disclosed tradeoffs the Company has made. For
 2 example, in November 2020, the New York Times reported that engineers and data scientists had
 3 developed an algorithm to predict whether posts by individual users were “bad for the world” (*e.g.*,
 4 spread misinformation), and demote those posts in news feeds to reduce the spread of objectionable
 5 content.⁴⁴ The algorithm “successfully reduced the visibility of objectionable content,” but since
 6 objectionable posts tend to be shared more broadly, the algorithm’s demotion of such posts
 7 decreased user sessions (a metric measuring time spent on Facebook). Fewer sessions meant fewer
 8 eyeballs and hence fewer ad dollars (as a former Facebook data scientist explained),⁴⁵ and therefore
 9 the team tweaked the algorithm to reduce the strength of the demotion. That tweak “left more
 10 objectionable posts in users’ feeds,” but “did not reduce their sessions or time spent.”⁴⁶ Only then
 11 did executives approve the algorithm. As with Deceptive Facebook Ads, revenue trumped user
 12 safety.

13 64. A similar narrative has emerged from recently unsealed documents in a class action
 14 by advertisers against Facebook alleging that its “Potential Reach”⁴⁷ metric was inflated and
 15 misleading. (*DZ Reserve and Cain Maxwell v. Facebook, Inc.*, Civ. No. 3:18-cv-04978-JD (N.D.
 16 Cal.)). Internal documents referenced in plaintiffs’ recently unredacted opposition to dismiss (Dkt.
 17 257) reinforce that Facebook prioritizes revenue growth over integrity:

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 20 ⁴⁴ Kevin Roose, Mike Isaac and Sheera Frenkel, *Facebook Struggles to Balance Civility and*
 21 *Growth*, THE NEW YORK TIMES (Nov. 24, 2020),
<https://www.nytimes.com/2020/11/24/technology/facebook-election-misinformation.html> (last
 visited on July 2, 2021).

22 ⁴⁵ Roddy Lindsay, *Facebook Has a Recipe For Better Social Media. Why Isn’t The Company*
Using It?, THE INFORMATION (Nov. 27, 2020),
 23 [https://www.theinformation.com/articles/facebook-has-a-recipe-for-better-social-media-why-](https://www.theinformation.com/articles/facebook-has-a-recipe-for-better-social-media-why-isnt-the-company-using-it)
 24 [isnt-the-company-using-it](https://www.theinformation.com/articles/facebook-has-a-recipe-for-better-social-media-why-isnt-the-company-using-it) (last visited on July 2, 2021).

25 ⁴⁶ Kevin Roose, Mike Isaac and Sheera Frenkel, *Facebook Struggles to Balance Civility and*
Growth, THE NEW YORK TIMES (Nov. 24, 2020),
 26 <https://www.nytimes.com/2020/11/24/technology/facebook-election-misinformation.html> (last
 visited on July 2, 2021).

27 ⁴⁷ Potential Reach is an estimation of how many people an ad can potentially reach depending on
 the targeting and ad placement. *See*
 28 <https://www.facebook.com/business/help/1665333080167380?id=176276233019487> (last visited
 on July 2, 2021).

1 The Potential Reach Product Manager (Yaron Fidler) proposed a fix that would
 2 have decreased the Potential Reach numbers. *Id.* ¶¶ 80-81. But Facebook’s metrics
 3 leadership team rejected his proposal ***because the “revenue impact” for Facebook***
 4 ***would be “significant.”*** *Id.* ¶¶ 80-82, 84. Fidler responded, “it’s revenue we should
 5 have never made given the fact it’s based on wrong data.” *Id.* ¶ 82. ***Fidler’s***
 6 ***proposals to fix the flawed metric were repeatedly rejected. Id. ¶ 91.***

7 65. In sum, because Facebook prioritizes revenue growth over the safety of its users as
 8 a matter of corporate policy, Facebook users continue to be bilked out of billions of dollars by
 9 scammers while Facebook continues to collect billions of dollars in revenues from those same
 10 scammers. Instead of employing its vast investigative, technical, and financial resources to
 11 vigorously crack down on scammers, Facebook is incentivized to continue investing money in
 12 “experience centers” and sales offices in China where Facebook knows a material percentage of
 13 advertisers are violating its Ad Policies. As author Tim Hwang observed to BuzzFeed, ***“I think the***
 14 ***profit motive definitely makes it harder for Facebook to take real steps here.”***

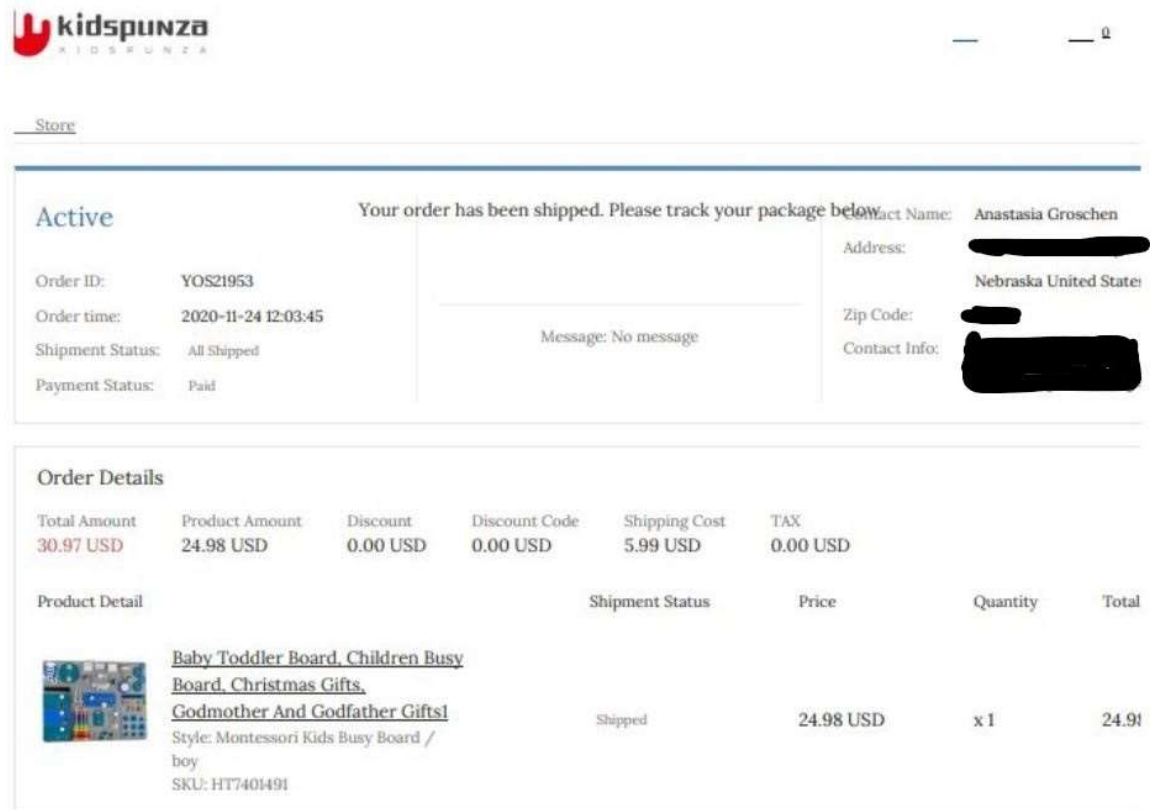
15 PLAINTIFFS’ EXPERIENCES

16 Anastasia Groschen

17 66. On or about November 24, 2020, Ms. Groschen saw a Facebook ad for an activity
 18 board that she thought would be appropriate for her toddler. The ad was designed to appear
 19 legitimate, and thus Ms. Groschen had no reason to believe it was actually promoting a fraudulent
 20 “bait-and-switch” scheme. The ad is no longer available in Facebook’s online ad library.
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The screenshot shows a mobile application interface. At the top, there's a status bar with the time 13:54, signal strength, Wi-Fi icon, and battery level at 12%. Below this is a navigation bar with a back arrow, a lock icon, the text "Baby Toddler Boa...", the website "kidspunza.com", a bookmark icon, a share icon, and a menu icon. A black banner below the navigation bar reads "We Offer Free Shipping Worldwide.". The main area features a large image of a grey wooden board filled with various toys and activities, including gears, a xylophone, a clock, and alphabet cards. Below the image is a small white box containing the text "1 / 16". Underneath the image is the product title "Baby Toddler Board, Children Busy Board, Christmas Gifts, Godmother And Godfather Gifts1". Below the title are five yellow stars and the text "5/5 View". At the bottom left, the price "\$24.98" is displayed. The very bottom of the screen shows three icons: a vertical rectangle, a circle, and a triangle.

68. After reviewing the website, Ms. Groschen purchased the activity board for \$24.98, plus \$5.99 shipping, using her PayPal account. The purchase confirmation displayed the product Ms. Groschen had seen on the website:



kidspunza

[Store](#)

Active Your order has been shipped. Please track your package below.


Order ID: YOS21953
 Order time: 2020-11-24 12:03:45
 Shipment Status: All Shipped
 Payment Status: Paid

Message: No message

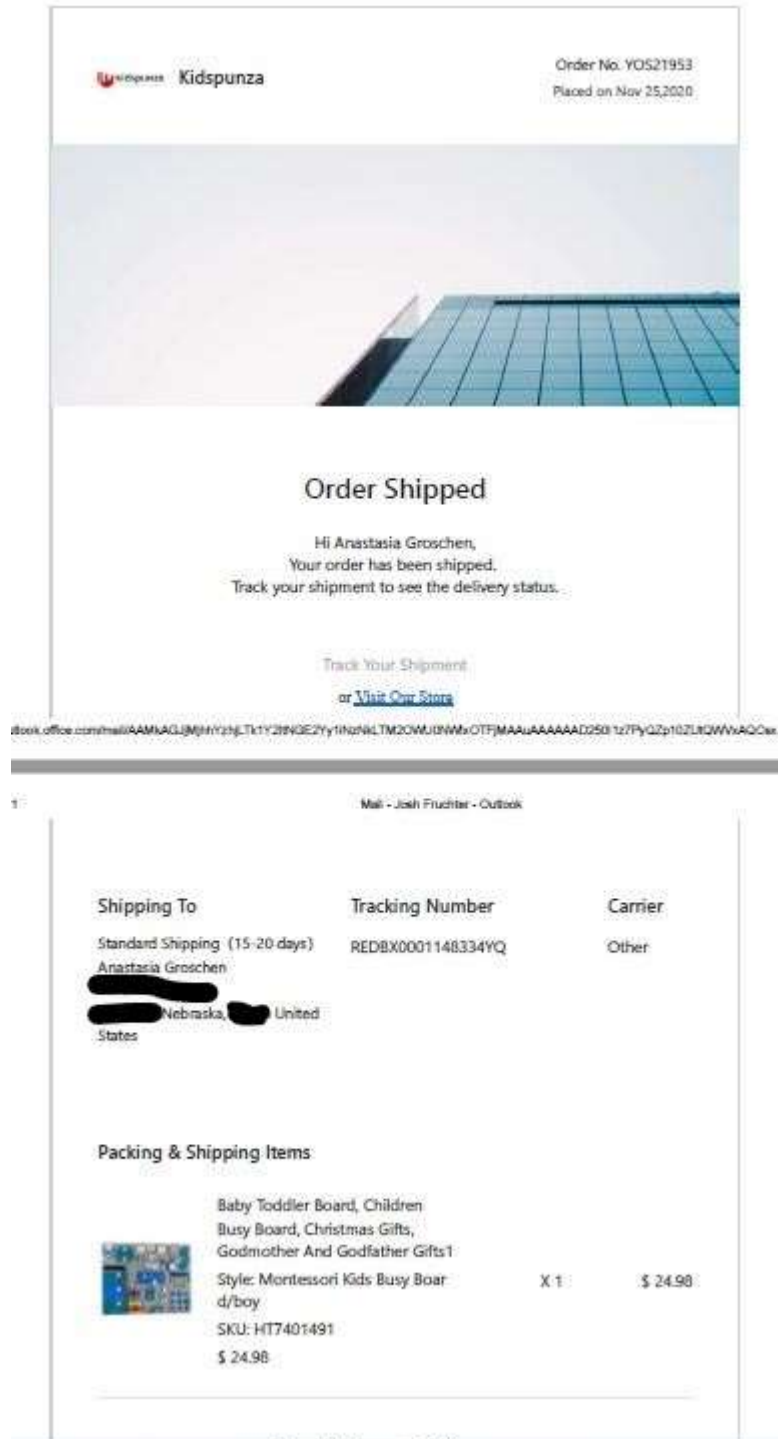
Contact Name: Anastasia Groschen
 Address: [REDACTED]
 Nebraska United States
 Zip Code: [REDACTED]
 Contact Info: [REDACTED]

Order Details

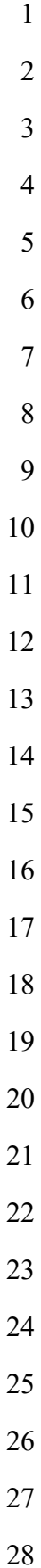
Total Amount	Product Amount	Discount	Discount Code	Shipping Cost	TAX
30.97 USD	24.98 USD	0.00 USD	0.00 USD	5.99 USD	0.00 USD

Product Detail	Shipment Status	Price	Quantity	Total
 <u>Baby Toddler Board, Children Busy Board, Christmas Gifts, Godmother And Godfather Gifts</u> Style: Montessori Kids Busy Board / boy SKU: HT7401491	Shipped	24.98 USD	x 1	24.98

69. On November 27, 2020, Ms. Groschen received an email notification that the product she ordered had been shipped:



70. But when a package arrived on December 24, 2020, it did not contain the activity board she had ordered, but a cheap wooden “ABC” puzzle:



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1 71. On December 24, 2020, Ms. Groschen wrote to the vendor through her PayPal
2 account:

3 I received a package with this tracking number today, however it is not what I
4 ordered. I ordered a toddler busy board 60x80 cm [23.6 inches x 31.5 inches] with
5 [a] variety of activities. The package contained a small wooden puzzle 8.5" x 11"
size. They sell these in Dollar store. What a terrible service. I need my payment
refunded please.

6 72. Through PayPal, the vendor provided an address in China, and directed Ms.
7 Groschen to take the item to the post office, ship it back to the address in China, and provide them
8 with a tracking number.

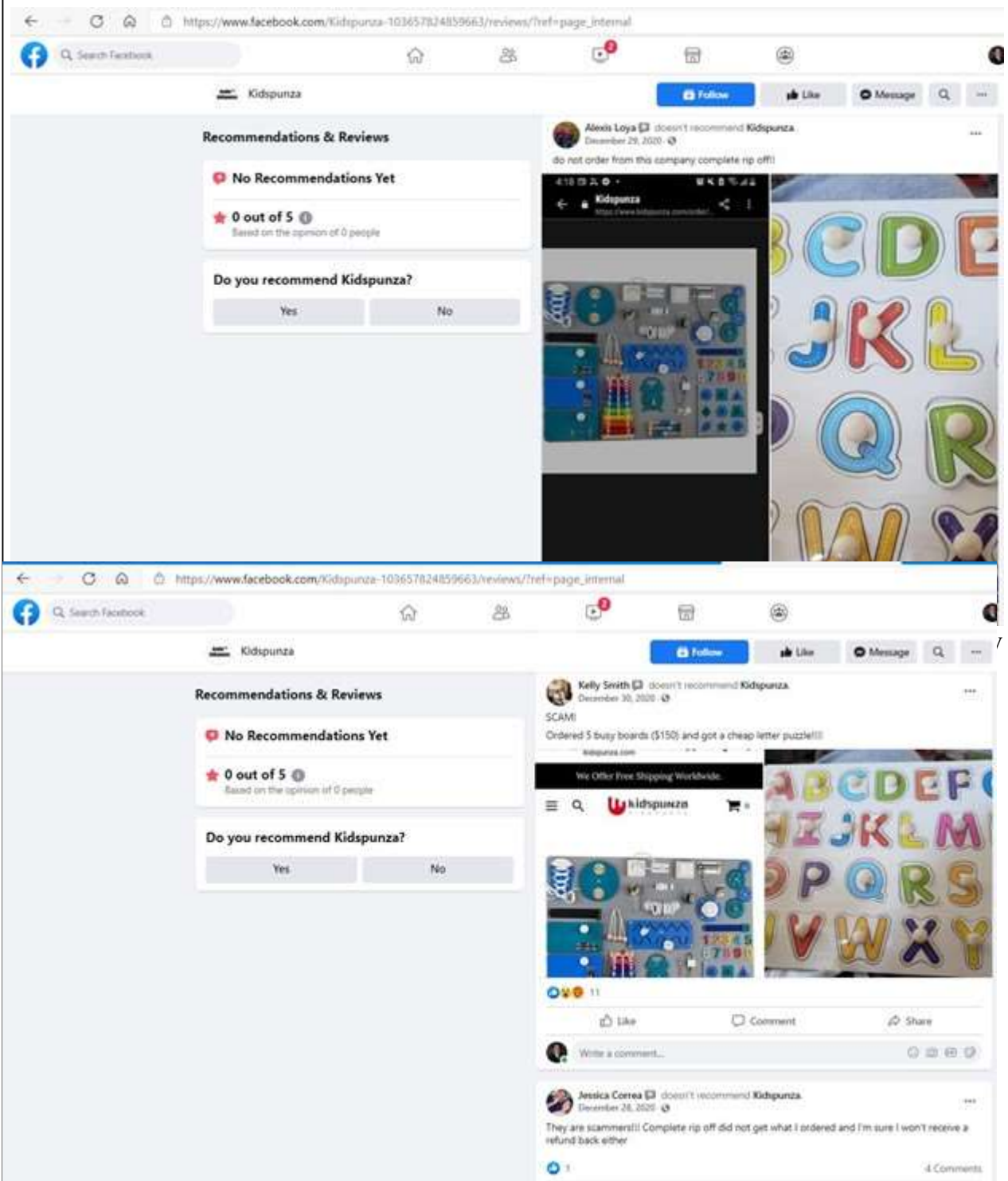
9 73. On January 11, 2021, Ms. Groschen responded that "I need you to send me a pre-
10 paid shipping label. I am not going to pay to send this back to China since it's not my fault you
11 sent me the wrong item."

12 74. On January 20, 2021, Ms. Groschen again asked for a prepaid shipping label on the
13 ground that the company had sent her the wrong item and should pay to ship it back to China.

14 75. Ms. Groschen declined to ship the item back to China at her own expense because
15 she knew she was dealing with a scammer (indeed, another Facebook user who shipped a product
16 back to China, reported that the seller claimed it never received the return, and refused to issue a
17 credit, even though the buyer had a post office receipt). As a result, PayPal resolved Ms.
18 Groschen's case in the seller's favor on January 29, 2021, and refused to issue any refund to Ms.
19 Groschen.

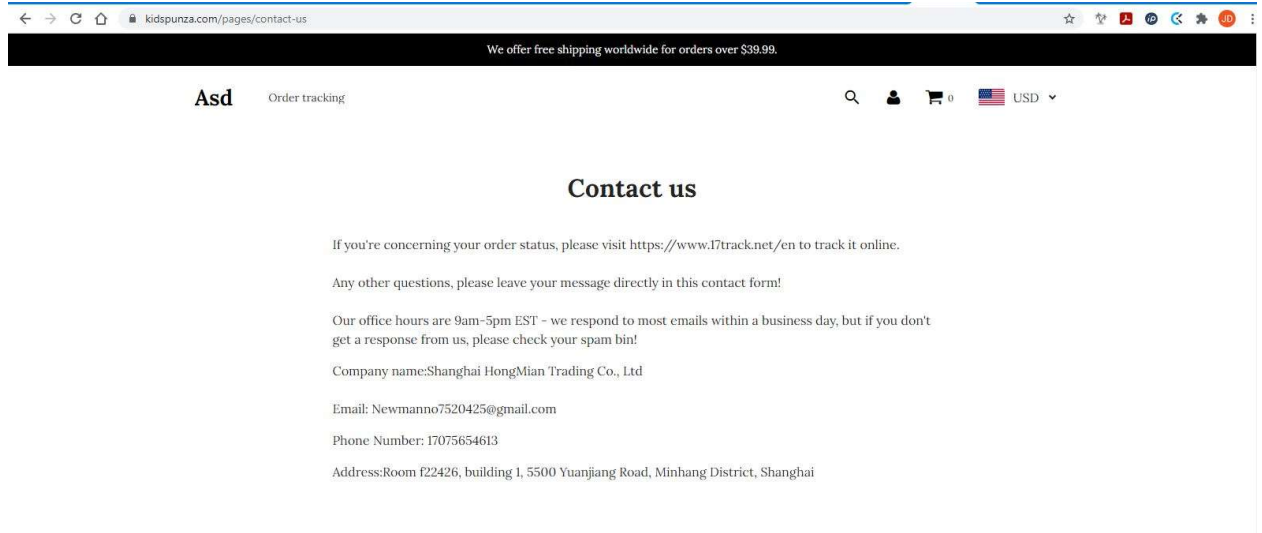
20 76. While the kidspunza.com website is still functioning as of February 10, 2021, the
21 item that Ms. Groschen saw on the website after clicking the Facebook ad no longer appears on
22 the website. But Ms. Groschen is not the only Facebook user damaged by Kidspunza's bait-and-
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switch scheme, as evidenced by the numerous other complaints about the *identical* scam published to Kidspunza's Facebook page.⁴⁸ The following screenshots depict just two examples:



⁴⁸ https://www.facebook.com/pg/Kidspunza-103657824859663/reviews/?ref=page_internal (last visited on February 12, 2021). The Kidspunza Facebook page has since been taken down by Facebook.

78. Additionally, as of February 10, 2021, the “kidspunza.com” Contact Us page identifies the website owner as a Chinese company (Shanghai HongMian Trading Co., Ltd.) with a mailing address in China:



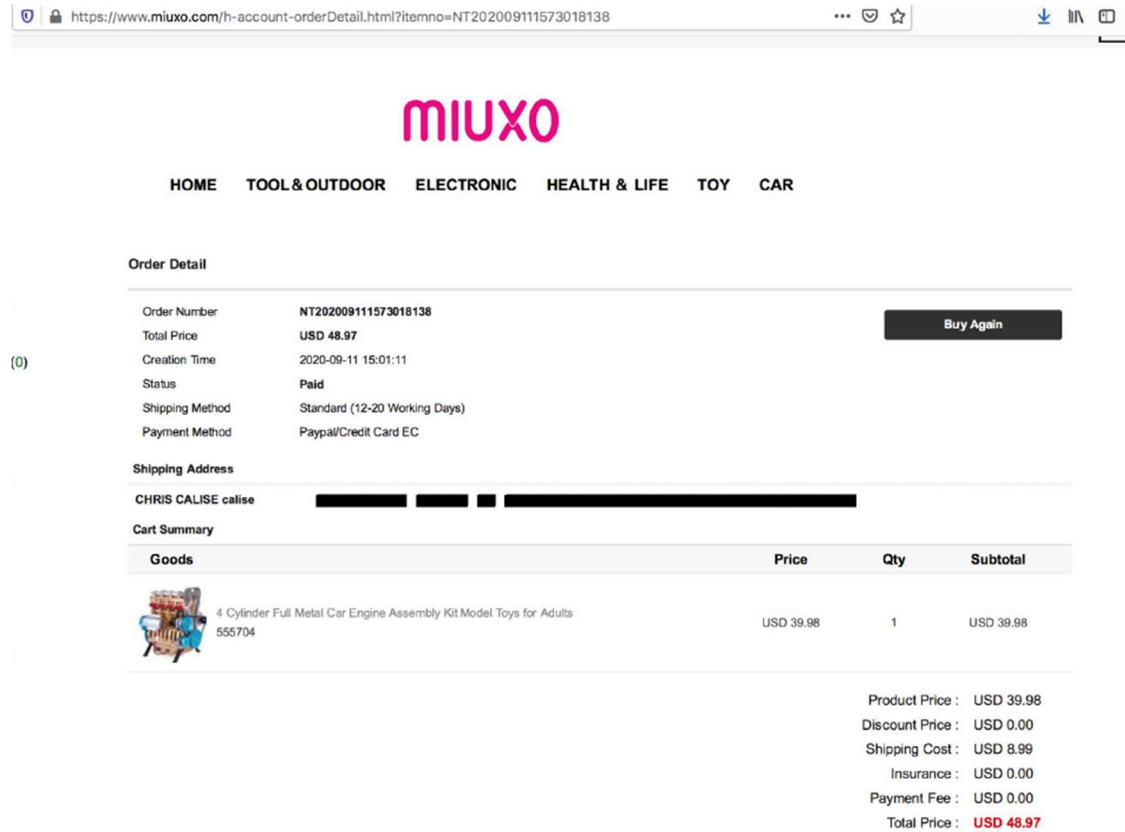
79. Ms. Groschen continues to regularly use Facebook and see Facebook ads, and is, therefore, vulnerable to future scams.

80. As a result of the processes, practices, and policies at Facebook that are soliciting, encouraging, and assisting the display of Deceptive Facebook Ads, Ms. Groschen was harmed because she spent money on a product that she would not have otherwise purchased had she known she was being defrauded.

Christopher Calise

81. In or about September 11, 2020, Mr. Calise saw a Facebook ad for a car engine assembly kit. The ad was designed to appear legitimate, and thus Mr. Calise had no reason to believe it was a Deceptive Facebook Ad.

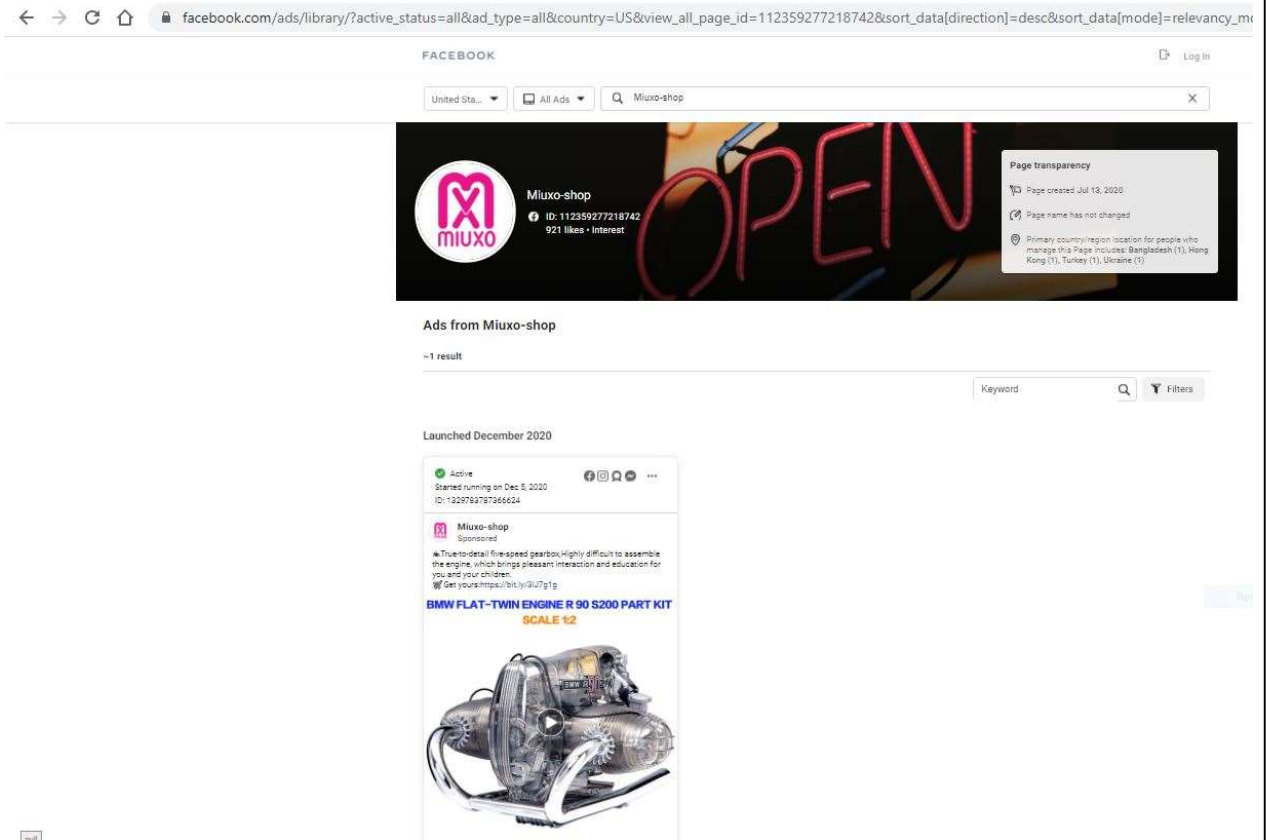
82. Mr. Calise clicked the ad, which linked to a website with the domain miuxo.com. After reviewing the website, Mr. Calise purchased the car engine assembly kit for \$48.97 using his debit card.



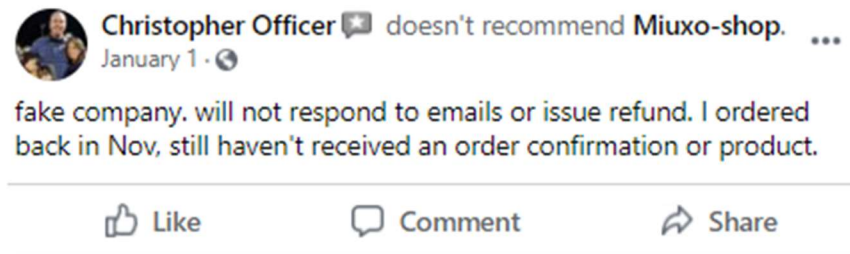
83. On October 4, 2020, Mr. Calise emailed service@miuxo.com requesting tracking information for his order. After not receiving any response, on October 15, 2020, Mr. Calise emailed again inquiring about a delivery date. Mr. Calise never heard back from the company and the car engine assembly kit was never delivered.

84. Mr. Calise did not receive a refund of the purchase price he paid.

85. In November 2020, Mr. Calise reported Miuxo's ad to Facebook. Facebook agreed that the ad violated its Ad Policies and claimed to have removed it. Yet, according to Facebook's online ad library, Miuxo was able to launch a new Facebook ad promoting another engine assembly kit in December 2020 under the name Miuxo-shop, which scammed additional Facebook users:



86. The following screenshots depict just three examples of additional Facebook users scammed by Miuxo after Facebook claimed to have removed the ad:⁴⁹



⁴⁹ https://www.facebook.com/Miuxo-shop-112359277218742/reviews/?ref=page_internal (last visited on July 2, 2021). The Miuxo-shop Facebook page has since been taken down by Facebook.



87. Upon information and belief, the ad seen by Mr. Calise was placed by a Hong Kong-based scammer.

88. Mr. Calise continues to regularly use Facebook and see Facebook ads, and is, therefore, vulnerable to future scams.

89. As a result of the processes, practices, and policies at Facebook that are soliciting, encouraging, and assisting the display of Deceptive Facebook Ads, Mr. Calise was harmed because he spent money on a product that he would not have otherwise purchased had he known he was being defrauded.

90. Prior to filing suit against Facebook, on behalf of himself and the proposed classes, Mr. Calise made a reasonable attempt to settle the claims alleged herein short of litigation by delivering a presuit demand to Facebook on June 1, 2021 through counsel notifying Facebook of his grievances and proposed remedies. That settlement attempt was ultimately unsuccessful

1 because Facebook refused to provide Mr. Calise with all of the internal documents he needed to
 2 reasonably investigate the claims alleged herein and implement appropriate remedies.

3 **CLASS ALLEGATIONS**

4 91. Plaintiffs bring this action on behalf of themselves and as a class action pursuant to
 5 Federal Rules of Civil Procedure 23(a), 23(b)(2), 23(b)(3), and 23(c)(4) on behalf of the following
 6 proposed Class and Subclass (collectively referred to hereinafter as the “Classes”):

7 **Injunctive Relief Class (“Class”)**

8 All individuals with an active Facebook account.

9 **Damages Subclass (“Subclass”)**

10 All individuals with an active Facebook account who, between August 11, 2017
 11 through the present, clicked on a Deceptive Facebook Ad and suffered harm.

12 92. Specifically excluded from the Classes are Facebook, its officers, directors, agents,
 13 trustees, parents, children, corporations, trusts, representatives, employees, principals, servants,
 14 partners, joint venturers, or entities controlled by Facebook, and their heirs, successors, assigns, or
 15 other persons or entities related to or affiliated with Facebook and/or its officers and/or directors,
 16 the judge assigned to this action, and any member of the judge’s immediate family.

17 93. Plaintiffs reserve the right to amend the Class and Subclass definitions above if
 18 further investigation and/or discovery reveals that such definitions should be expanded, narrowed,
 19 divided into further subclasses, or otherwise modified in any way.

20 94. The Classes satisfy the requirements of Federal Rules 23(a): numerosity,
 21 commonality, typicality, and adequacy.

22 95. *Numerosity.* The members of the Classes are so numerous that joinder of all
 23 members is impracticable. While the precise number of the members in each of the Classes is
 24 presently unknown, Facebook’s latest Form 10-K indicates that there are approximately 195
 25 million daily active Facebook users in the United States and Canada. Further, internal Facebook
 26 records referenced above indicate that Facebook generates billions of dollars a year in revenue
 27 from ads purchased by China-based companies, and that 30% of these ads violate one or more of
 28

Facebook's ad policies. This means that, conservatively, millions of Facebook users in the United States are regularly exposed to Deceptive Facebook Ads.

96. ***Existence of common questions of law and fact.*** Common questions of law and fact exist as to all members of the Classes. The common factual and legal questions include, but are not limited to, the following:

- (a) Whether Facebook actively solicits, encourages, and assists scammers whom it knows or should know are placing Deceptive Facebook Ads;
- (b) Whether Facebook owes legal duties to Classes, and breached and continues to breach those duties;
- (c) Whether Facebook breached and continues to breach its Terms of Service with members of the Classes;
- (d) Whether Facebook breached and continues to breach its covenant of good faith and fair dealing with members of the Classes;
- (e) Whether Facebook engaged and continues to engage in unfair business practices under the UCL;
- (f) Whether Facebook was and continues to be unjustly enriched at the expense of members of the Classes;
- (g) Whether Facebook's misconduct alleged herein caused and continues to cause harm to members of the Classes;
- (h) Whether Facebook has the capability to implement changes to processes, practices, and policies to vet new advertisers before permitting them to display ads;
- (i) Whether Facebook has the capability to implement changes to processes, practices, and policies to prevent repeat offenders from circumventing enforcement mechanisms to continue displaying scam ads;

- (j) Whether Facebook has the capability to implement changes to processes, practices, and policies to more adequately process and respond to reports of scam ads submitted by Facebook users;
- (k) Whether Facebook has the capability to implement changes to processes, practices, and policies to more adequately identify and remove ads that violate Facebook’s ad policies;
- (l) Whether Facebook has the capability to implement changes to processes, practices, and policies to educate users about the location and use of tools available to protect themselves against scam ads;
- (m) Whether Facebook has the capability to compensate Facebook employees and contractors tasked with monitoring Facebook’s websites for scam ads to ensure, among other things, that such employees and contractors are incentivized to prioritize protection of Facebook users from Deceptive Facebook Ads;
- (n) Whether Facebook has the capability to compensate Facebook’s sales, marketing, and business development teams to ensure, among other things, that such teams are not financially incentivized to solicit scammers or encourage scammers to continue purchasing Facebook ads;
- (o) Whether Facebook has the capability to expand Facebook’s existing Purchase Protection program for purchases made on the Facebook website to victims who are tricked by scammers into fraudulent transactions occurring off the Facebook website;
- (p) Whether Class members are entitled to injunctive and declaratory relief, including without limitation, the Proposed Injunctive Relief to prevent future harm; and
- (q) Whether Subclass members are entitled to damages and/or disgorgement of unjustly earned profits as a result of Facebook’s misconduct.

1 97. **Typicality.** Plaintiffs' claims are typical of the claims of the other members of the
 2 Classes in that the claims of Plaintiffs and other members of the Classes are reasonably co-
 3 extensive, and arise from the same course of wrongful conduct by Facebook.

4 98. **Adequacy of representation.** Plaintiffs will fairly and adequately protect the
 5 interests of the members of the Classes. Plaintiffs have retained counsel highly experienced in
 6 complex consumer class action litigation, and Plaintiffs intend to vigorously prosecute this action.
 7 Further, Plaintiffs have no interests that are antagonistic to those of the other members of the
 8 Classes.

9 99. The Class satisfies the requirements of Rule 23(b)(2) because Facebook has acted
 10 or refused to act on grounds generally applicable to the Class as a whole, thereby making
 11 appropriate final declaratory and injunctive relief with respect to Class members as a whole.

12 100. The Subclass also satisfies the requirements of Federal Rules 23(b)(3):
 13 predominance and superiority.

14 101. **Predominance.** The common issues identified above will predominate over any
 15 questions affecting only individual Subclass members. In particular, Facebook's liability will be
 16 determined by reference to the Terms of Service, as well as other common evidence in the form of
 17 Facebook's internal records, including internal studies (such as referenced in paragraph 46 above),
 18 financial records, and databases storing information concerning the display of every ad to every
 19 user, including the date of display, the identity of the user, the identity of the advertiser, and the
 20 amount paid by the advertiser to Facebook for the ad.⁵⁰

21 102. **Superiority.** A class action is superior to all other available means for the fair and
 22 efficient adjudication of this controversy. The damages or other financial detriment suffered by
 23 individual Subclass members is relatively small compared to the burden and expense that would
 24 be involved in individual litigation of their claims against Facebook. It would, thus, be virtually

25 _____
 26 ⁵⁰ See *How advertisers' audience selections appear in "Why am I seeing this ad?"*, FACEBOOK
 27 FOR BUSINESS, <https://www.facebook.com/business/m/why-am-i-seeing-this-ad> (last visited on
 28 July 9, 2021); Facebook Ad Library, FACEBOOK, <https://www.facebook.com/ads/library/> (last
 visited August 9, 2021); *DZ Reserve, et al. v. Facebook, Inc.*, 18-cv-04978-JD (N.D. Cal.), Dkt
 No. 227 at Sec. II at 2-3.

impossible for the Subclass members, on an individual basis, to obtain effective redress for the wrongs committed against them. Furthermore, individualized litigation would create the danger of inconsistent or contradictory judgments arising from the same set of facts. Individualized litigation would also increase the delay and expense to all parties and the court system from the issues raised by this action. By contrast, the class action device provides the benefits of adjudication of these issues in a single proceeding, economies of scale, and comprehensive supervision by a single United States District Court, and presents no unusual management difficulties under the circumstances presented in this case.

103. Alternatively, at a minimum, particular common issues are appropriate for class treatment under Rule 23(c)(4).

COUNT I

Negligence

104. Plaintiffs re-allege and incorporate by reference herein all the allegations contained above.

105. Facebook has a special relationship with members of the Classes, and owes them independent legal duties to perform the services it provides to them in a manner that protects them from being defrauded by advertisers who place Deceptive Facebook Ads (“Deceptive Facebook Advertisers”), because among other reasons (i) it is foreseeable — indeed, a virtual certainty — that Deceptive Facebook Advertisers will harm members of the Classes by causing them to spend money purchasing products they would not have otherwise purchased had they known they were being defrauded; (ii) from a policy standpoint, holding that Facebook has no duty to members of the Classes under these circumstances to protect them from Deceptive Facebook Advertisers will permit Facebook to continue its practice of prioritizing the billions of dollars in annual revenue it collects from Deceptive Facebook Advertisers over preventing the harm such advertisers cause members of the Classes, thereby putting millions of additional Facebook users at future risk of being defrauded by Deceptive Facebook Advertisers; and (iii) Facebook’s conduct is morally blameworthy since it has the investigative, technical and financial resources to crack down much

1 more vigorously and effectively on Deceptive Facebook Advertisers without undue burden, but
 2 refuses to do so because enforcing its Ad Policies too strictly would eliminate the billions of dollars
 3 in annual revenue it collects from such advertisers.

4 106. Facebook breached the duty of care it owed to members of the Classes by actively
 5 soliciting, encouraging, and assisting Deceptive Facebook Advertisers it knew or should have
 6 known were defrauding Facebook users, including without limitation, by taking the following
 7 actions:

- 8 (a) Actively undertaking various marketing efforts (including conferences,
 9 tradeshow, meetups, and parties) to encourage advertisers that it knew
 10 were displaying, or had displayed Deceptive Facebook Ads that violated
 11 Facebook's Ad Policies to "buy more" Facebook ads and "spend more" on
 12 Facebook ads;
- 13 (b) Actively soliciting and training advertisers in China despite knowing for
 14 years that a material percentage of the Facebook ads placed by China-based
 15 companies violate one or more of Facebook's Ad Policies;
- 16 (c) Affirmatively directing employees and contractors monitoring Facebook's
 17 platform for Deceptive Facebook Ads to ignore violations of Facebook's
 18 Ad Policies, as long as Facebook gets paid for those ads;
- 19 (d) Affirmatively directing employees and contractors monitoring Facebook's
 20 platform for Deceptive Facebook Ads to ignore ads placed by hacked
 21 Facebook accounts and pages, as long as Facebook gets paid for those ads;
- 22 (e) Affirmatively directing employees and contractors monitoring Facebook's
 23 platform for Deceptive Facebook Ads to "look the other way" and refrain
 24 from enforcing Facebook's Ad Policies against Deceptive Facebook Ads
 25 placed by China-based companies (since Facebook "want[s] China
 26 revenue"); and

(f) Affirmatively enabling Deceptive Facebook Advertisers whose accounts were banned to quickly resume placing Deceptive Facebook Ads through lax enforcement of Facebook's ad policies.

107. By breaching its duty to members of the Classes, Facebook created a risk for members of the Classes, and made their position worse.

108. Facebook knew or should have known that breach of its duty to members of the Classes to protect them from Deceptive Facebook Advertisers would harm members of the Classes.

109. As a direct and proximate result of Facebook's breach of its duty, members of the Classes foreseeably suffered damages. To redress such harm, Plaintiffs seek the relief set forth below on behalf of themselves and other members of the Classes.

COUNT II

Breach of Contract

110. Plaintiffs re-allege and incorporate by reference herein all of the allegations set forth above.

111. Plaintiffs and other members of the Classes entered into a services contract with Facebook consisting of the TOS, which incorporated by reference the Community Standards, and the Advertising Policies.

112. The TOS contains enforceable promises that Facebook made to the Plaintiffs and other members of the Classes, including but not limited to, as set forth below.

113. In Section 1 of the TOS, Facebook states that (i) "[p]eople will only build community on Facebook if they feel safe," and promises that (ii) "[w]e employ dedicated teams around the world and develop advanced technical systems to *detect misuse of our Products, harmful conduct towards others*, and situations where we may be able to help support or protect our community." Facebook further promises that "[i]f we learn of content or conduct like this, *we will take appropriate action* - for example, offering help, removing content, removing or restricting access to certain features, *disabling an account*, or contacting law enforcement."

Facebook materially breached these promises by actively and affirmatively soliciting, encouraging, and assisting Deceptive Facebook Advertisers it knew or should have known were defrauding Facebook users, including without limitation, by taking the actions detailed in paragraph 106(a)-(f) above.

114. In Section 1 of the TOS, Facebook further promises that “we develop automated systems to improve our ability *to detect and remove abusive and dangerous activity that may harm our community and the integrity of our Products.*” Facebook materially breached this promise by actively and affirmatively soliciting, encouraging, and assisting Deceptive Facebook Advertisers it knew or should have known were defrauding Facebook users, including without limitation, by taking the actions detailed in paragraph 106(a)-(f) above.

115. The Community Standards incorporated by reference in Section 3 of the TOS provide in relevant part “[w]e are committed to making Facebook a safe place,” and in the “Safety” section Facebook promises “Fraud and Deception: In an effort to prevent fraudulent activity that can harm people or businesses, *we remove content that purposefully deceives, willfully misrepresents or otherwise defrauds or exploits others for money or property.*” Facebook materially breached this promise by actively and affirmatively soliciting, encouraging, and assisting Deceptive Facebook Advertisers it knew or should have known were defrauding Facebook users, including without limitation, by taking the actions detailed in paragraph 106(a)-(f) above.

116. Plaintiffs have performed all, or substantially all, of their material obligations under the TOS.

117. As a direct and proximate result of Facebook’s material breaches of the TOS as described above, members of the Classes suffered damages and Facebook unjustly profited. To redress such harm, Plaintiffs seek the relief set forth below on behalf of themselves and other members of the Classes.

COUNT III

Breach of the Covenant of Good Faith and Fair Dealing

118. Plaintiffs re-allege and incorporate by reference herein all of the allegations set forth above.

119. In every contract there is an implied promise of good faith and fair dealing.

120. Plaintiffs and other members of the Classes entered into a services contract with Facebook consisting of the TOS, which incorporated by reference the Community Standards, and the Advertising Policies.

121. The TOS contains enforceable promises that Facebook made to the Plaintiffs and other members of the Classes, including without limitation, the promises set forth in paragraphs 113-115 above.

122. By actively and affirmatively soliciting, encouraging, and assisting Deceptive Facebook Advertisers it knew or should have known were defrauding Facebook users — including without limitation, by taking the actions detailed in paragraph 106(a)-(f) above — Facebook engaged in conduct that frustrated and interfered with the rights of Plaintiffs and other members of the Classes to the benefits of the TOS (including without limitation, the right to a safe environment while using Facebook and right to be protected against being scammed by Deceptive Facebook Ads).

123. Plaintiffs have performed all, or substantially all, of their material obligations under the TOS.

124. As a direct and proximate result of Facebook's breach of the covenant of good faith and fair dealing, members of the Classes suffered damages and Facebook unjustly profited. To redress such harm, Plaintiffs seek the relief set forth below on behalf of themselves and other members of the Classes.

COUNT IV

Violations of California’s Unfair Competition Law
Cal. Bus. & Prof. Code §§ 17200, *et seq.* (“UCL”)

125. Plaintiffs re-allege and incorporate by reference herein all of the allegations set forth above.

126. The UCL prohibits acts of “unfair competition,” including any “unlawful, unfair or fraudulent business act or practice.”

127. By actively and affirmatively soliciting, encouraging, and assisting Deceptive Facebook Advertisers it knew or should have known were defrauding Facebook users — including without limitation, by taking the actions detailed in paragraph 106(a)-(f) above — Facebook violated the unfair prong of the UCL because such misconduct (i) was oppressive, immoral, unethical, and unscrupulous; (ii) caused substantial injury to members of the Classes who were victimized by Deceptive Facebook Ads; and (iii) violated established public policy against deceptive conduct by businesses. Further, such misconduct allowed Facebook to have an unfair advantage over competitors that do not solicit, encourage, or assist deceptive advertisers. Additionally, Facebook’s justifications or reasons for, or the utility or benefit (if any) for its misconduct were substantially outweighed by the substantial economic harm that such misconduct caused members of the Classes. Finally, the harm caused by Facebook’s misconduct is not one that members of the Classes could have reasonably avoided given Facebook’s exclusive knowledge of and control over its internal sales and enforcement policies and practices, and the fact that Deceptive Facebook Advertisers deliberately design their Deceptive Facebook Ads to look legitimate, and thus when they first see such ads, members of the Classes have no reason to believe that those ads are actually promoting bait-and-switch or other fraudulent schemes.

128. As a result of Facebook’s UCL violations as described above, Plaintiffs and other members of the Classes have suffered injury, including but not limited to, paying for products they saw advertised on Facebook that they would not have otherwise purchased had they known they were being defrauded.

1 B. Awarding declaratory and injunctive relief, including but not limited to, the
2 Proposed Injunctive Relief;

3 C. Awarding Plaintiffs and other members of the Classes monetary
4 compensation in the form of damages, and/or disgorgement of Facebook's unjustly earned
5 profits;

6 D. Awarding Plaintiffs and the Classes attorneys' fees and costs (including,
7 without limitation, under Section 1021.5 of the California Code of Civil Procedure);

8 E. Awarding Plaintiffs and other members of the Classes prejudgment and
9 post-judgment interest; and

10 F. Providing any and all further relief as the Court may deem just and proper.

11 **JURY DEMAND**

12 Plaintiffs request a trial by jury of all claims that can be so tried.

13 DATED: August 11, 2021

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